

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4367-02  
Bill No.: HB 1886  
Subject: Cities, Towns and Villages; Economic Development  
Type: Original  
Date: February 26, 2002

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$99,171 to Unknown)	(\$105,135 to Unknown)	(\$108,336 to Unknown)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$99,171 to Unknown)</b>	<b>(\$105,135 to Unknown)</b>	<b>(\$108,336 to Unknown)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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## **FISCAL ANALYSIS**

### ASSUMPTION

Officials from the **Department of Economic Development (DED)** states the bill enacts the Missouri Downtown Economic Stimulus Act. Certain taxes deemed new increment would be diverted to pay for the development of the area (or noncontiguous areas). PILOTS, EATS, and "other net new revenues," which purport to be incremental state sales tax revenues and incremental state income taxes attributable to new hires. To be eligible for the state revenue portion, an application is made to the Missouri Development Finance Board. If approved, state revenue that is "other net new revenues" would be paid to a special fund in the city rather than to the state.

DED states this bill would include more state revenues than State TIF currently does. State TIF allows up to half of one or the other type of state increment to go to a project. This act dedicates 100% of both types of state increment. Of importance to determining fiscal impact is that the incremental state income tax for "new jobs" is based upon new hires in the area after approval of the development plan. This does not ensure that the new jobs are new to the state and therefore there is a potential for a loss of revenue that the state currently receives.

In a manner similar to Local TIF, DED receives annual reports and must prepare an annual report on MODESA areas and to provide assistance in some cases.

DED assumes the need for the assistance of contract labor to review information received and produce the two reports required. DED also assumes contract labor help to develop the manual required by 99.984 RSMo and assumes that annual updates would be required. DED assumes there will be some unknown costs to comply with 99.969 that requires General Revenue to pay for DED costs to provide assistance with this section. Cost would be unknown. The Missouri Development Finance Board (MDFB) anticipates the need of one professional FTE (at \$50,000) to accomplish tasks imposed plus associated expenses. MDFB would recover these costs as development finance costs from the proceeds received by the authority from the municipality or the state. Therefore, these costs are stated as local costs. All costs for DED and MDFB are estimates and are subject to adjustment.

DED assumes there would be an unknown impact on state tax revenue collections. This proposal may actually result in a net loss of revenue to the state due to the fact that it does not require that the state income tax diverted be for new jobs to the state but only for new hires to a business in the development area after the approval of the development plan.

**Oversight** assumes the costs incurred by DED would be paid from the General Revenue fund.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning** state this legislation could have a significant impact on general revenue. It reduces revenues that otherwise would come into the state general revenue fund.

Part A: Gives a sales tax offset to municipalities for local development in amounts ranging from \$10 million to \$40 million, per municipality. It is unknown how many municipalities would participate in the program.

Part B: In addition, participants involved in the above municipality projects can receive a 100% credit against their state income tax liability. This potentially doubles the cost to the state.

Officials from the **Department of Revenue (DOR)** state this proposal will create numerous questions from business and taxpayers within the approved development projects. DOR states the additional calls and additional work can be handled with existing resources.

Officials from the **City of Springfield** assume this proposal would not fiscally impact them since it is optional.

Officials from the **City of Kansas City** assume this proposal would not fiscally impact their city.

Officials from **Greene County**, the **City of St. Louis**, **St. Louis County**, **City of Columbia**, and the **City of Cape Girardeau** did not respond to our request for fiscal impact.

**Oversight** assumes the loss of revenue for the state is \$0 to unknown, since the proposal is permissive to any Missouri municipality and the Downtown Economic Stimulus Authority may designate various portions of the city as development areas, as long as they meet the specified requirements.

**Oversight** has reflected the fiscal impact to local governments as \$0, since this proposal is permissive and does not require municipalities to enact their Downtown Economic Stimulus Authority.

**This proposal could impact Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Loss</u> - loss in sales tax and income tax revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Costs</u> - DED			
Contract labor charges	(\$25,000)	(\$13,800)	(\$14,609)
<u>Costs</u> - MDFB			
Personal Service (1 FTE)	(\$41,667)	(\$51,250)	(\$52,531)
Fringe Benefits	(\$15,004)	(\$18,455)	(\$18,916)
Expense and Equipment	<u>(\$17,500)</u>	<u>(\$21,630)</u>	<u>(\$22,280)</u>
<u>Total Costs</u> - MDFB	(\$74,171)	(\$91,335)	(\$93,727)
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>(\$99,171 to <u>Unknown</u>)</b>	<b>(\$105,135 to <u>Unknown</u>)</b>	<b>(\$108,336 to <u>Unknown</u>)</b>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would impact small businesses that are within a designated development areas as defined by the municipality's Downtown Economic Stimulus Authority.

DESCRIPTION

This proposal;

(1) Creates in each municipality a "Downtown Economic Stimulus Authority," with certain provisions, which will constitute a public body corporate and politic;

DESCRIPTION (continued)

- (2) Requires each authority to be governed by a board of commissioners with three to 13 members. The commissioners will be appointed by the mayor for a term of three years;
- (3) States the powers of the authority;
- (4) Outlines methods by which real property can be disposed;
- (5) Outlines the required process for reviewing and accepting developer proposals;
- (6) Explains what the authority may do to carry out a development project, including how to transfer real property;
- (7) Outlines the requirements of a development plan and the process by which it must be reviewed;
- (8) Allows the authority, municipality, or state to issue bonds to finance the development project without a referendum;
- (9) Explains the manner in which ad valorem taxes and payments in lieu of taxes will be divided among the affected taxing districts;
- (10) Explains the manner in which other new net revenues will be paid to the municipality;
- (11) Requires the municipality to deposit other new net revenues in a separate account within the special allocation fund and explains when the municipality is required to remit excess funds to the Department of Revenue;
- (12) Explains when particular affected taxpayers are entitled to receive tax credits;
- (13) Requires each municipality to submit an annual report regarding development to the department;  
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- (14) Allows payments in lieu of taxes, economic activity taxes, and other net new revenue to be apportioned or diverted pursuant to the Real Property Tax Increment Allocation Redevelopment Act if all or a part of the development project area becomes subject to tax increment financing;
- (15) Requires the authority as well as the municipality to submit annual reports concerning development to the Director of the Department of Economic Development.


DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Department of Revenue  
City of Springfield  
City of Kansas City  
Office of Administration - Budget and Planning

**NOT RESPONDING:**        **Greene County, City of St. Louis, St. Louis County, City of  
Columbia, City of Cape Girardeau**



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